



**HUMAN RESOURCES OFFICE
TECHNICIAN / AGR ADMINISTRATIVE INSTRUCTION**

Number: 05-37

11 July 2005

Changes in Pay Administration Rules for General Schedule Employees (The Federal Workforce Flexibility Act of 2004)

1. The Federal Workforce Flexibility Act of 2004 (Public Law 108-411, 30 October 2004), amended provisions in 5 U.S.C. chapter 53 relating to the administration of special rates, locality rates, and retained rates. A primary purpose of the Act is to correct various pay administration anomalies that produced unfair pay reductions or unwarranted pay increases for employees in certain situations. Many of these anomalies were attributable to the fact that the former rules generally treated special rates as rates of basic pay for pay administration purposes, but did not treat locality rates as rates of basic pay. Consistent with the Act, the interim regulations treat locality rates and special rates in a consistent way, which will result in pay rules that are more rational and equitable. The Supplementary Information section of the interim regulations provides more detail on the new pay-setting rules.
2. *Effective Date.* Because the Act became effective on 1 May 2005, these new pay administration rules must be applied to any pay action effective on or after 1 May 2005.
3. *Special Rates.* The Office of Personnel Management (OPM) issued a memorandum and informed agencies that many special rate schedules, or certain grades and/or steps of special rate schedules, are terminated and that a small number of special rates at certain grades are increased. The termination of special rates will not result in a loss in pay for any covered employees, since all affected employees will continue to receive the higher locality rate to which they are otherwise entitled.
4. *Conversion of Retained Rates.* On 1 May 2005, certain existing locality-adjusted retained rates must be converted to new retained rates. Section 301(d)(2) of the Act requires that retained rates under 5 U.S.C. 5363 and certain other existing locality-adjusted retained rates be converted on 1 May 2005, to new retained rates that equal the previous retained rates, including any applicable locality-based comparability payment under 5 U.S.C. 5304.
5. *Key Changes.* The key changes made by the Act and OPM are summarized below:
 - Locality pay is now considered in applying various pay-setting rules (e.g., maximum payable rate, promotion, transfer, pay retention, etc.)
 - A locality rate may not be paid on top of a retained rate.
 - An employee's entitlement to a special rate is eliminated if the employee is entitled to a higher rate of basic pay, such as a locality rate.
 - The pay limitation on special rates is increased to the rate for level IV of the Executive Schedule (\$140,300 in 2005), which is consistent with the pay limitation on locality rates.
 - Special rates are generally basic pay for the same purposes as locality rates. Like a locality rate, a special rate consists of a base rate and a supplement.

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- An agency may choose to exclude its employees from coverage under a proposed or existing special rate schedule after notifying OPM.
- When an employee's official worksite is changed, the employee's rate of basic pay must be converted to the new pay schedules in the new location based on the employee's current position of record. This geographic conversion is processed after any simultaneous general pay adjustment, but before any other simultaneous pay action (e.g., a promotion).
- A reduction in an employee's rate of basic pay resulting from geographic conversion is not a basis for entitlement to pay retention.
- A retained rate is established based on an employee's payable (highest) rate of basic pay (including any locality payment or special rate supplement) and is compared to the employee's highest applicable rate range. At the time of a schedule adjustment, a retained rate is increased by an amount equal to 50 percent of the increase in the maximum rate of the highest applicable rate range.
- Pay retention rules apply to an employee with a retained grade in the same manner as those rules apply to other employees.

6. Direct questions concerning this TAAI to CMSgt Michael Hunt at DSN 466-3354 or (916) 854-3354; or TSgt Kenneth Cosgrove at DSN 466-3598 or (916) 854-3598.


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